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DEPARTMENT OF STATE

BRIEFING PAPER
ECONOMIC OVERVIEW

~~SECRET~~ OVP

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EYES

SURGING INDUSTRIAL GROWTH AND HIGH INFLATION

FILE

- o Ten years of market-oriented economic reforms have resulted in dramatic increase in agricultural output and industrial growth. In 1988 real GNP grew 11 percent while industrial output surged 18 percent. GNP growth this year should exceed 8 percent.
- o Rapid growth is sustained by one of the world's highest annual rates of investment: an average 38 percent of GNP during the late 1980s.
- o But reform has not been problem-free. Inflation reached 20 percent in 1988, the highest level in 40 years. Bottlenecks in raw materials, transportation, and electricity production are now acute and will worsen without massive new investment.

CURRENT POLICIES AIM TO CONTROL OVERHEATED ECONOMY

- o Inflationary pressures resulted from weak control over credit expansion and wage increases. Dual system of state-controlled and market prices misallocates resources and encourages official corruption.
- o Fear of adverse public reaction to rising inflation and shortages caused the government to lower growth targets and postpone essential price reforms for several years.
- o Emphasis has now switched from growth to controlling money supply, bank credit, and public spending. China also relying increasingly on administrative measures to allocate raw materials and reduce demand. Unlikely that these measures will effectively address problem.
- o China also instituting tighter central control over foreign borrowing to slow growth of PRC's \$40 billion external debt.

REFORM DELAYS COMPLICATE CHINA'S ECONOMIC FUTURE

- o Delay of price reform endangers creation of needed markets for goods, labor, and capital, threatening economic shortages and eventual stagnation. Increased administrative intervention a clear step backward, especially in agriculture.
- o Despite setbacks, China's leaders still claim they are committed to freeing up economy and establishing "socialist" market mechanism over the long run. While major policy changes not expected in 1989, PRC will continue some experiments in housing privatization, corporate stock issuance, and bankruptcy for loss-making state firms. Large-scale privatization, however, is still taboo subject.

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ECONOMIC FACT SHEET - CHINA
 (Million US\$, unless otherwise stated)

	<u>1986</u>	<u>1987</u>	<u>1988</u>
1. Socio-Economic Indicators			
Population (millions)	1,065	1,080	1,095
Population growth rate	1.4%	1.4%	1.4%
Life expectancy (years) (1984)	69	69	69
Adult literacy (1983)	77%	77%	77%
2. Economic Indicators			
Nominal GNP (1984=GDP)	271,664	293,383	372,102
Nominal per capita GNP (US\$)	\$255	\$272	\$340
Real GNP (yuan) growth rate	7.8%	9.4%	11.2%
Real per capita GNP growth	6.4%	8.0%	9.8%
Inflation rate (CPI)	6.0%	7.3%	18.5%
Official unemployment rate	2.0%	2.0%	2.0%
Investment/GNP ratio	36.7%	32.2%	31.1%
Govt. expenditure/GNP ratio	27.0%	25.8%	27.0%
Govt. budget balance/GNP ratio	-1.8%	-1.6%	-2.3%
3. Balance of Payments			
US exports to China (fas)	3,105	3,497	5,039
US imports from China (cif)	5,240	6,911	9,270
US/China trade balance	(2,135)	(3,413)	(4,231)
PRC Merchandise Exports (fob)	31,366	39,542	47,500
PRC Merchandise Imports (cif)	43,503	43,392	55,300
Trade balance	(12,137)	(3,850)	(7,800)
Current account balance	(7,034)	(300)	(1,000)
4. External Finance			
For. Exch. reserves (yearend)	10,514	15,236	19,521
Exch. Rate (avg. yuan/US\$)	3.45	3.72	3.72

CHINESE ECONOMY

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